

Around Town with the Town Manager #10

Many people have stopped or called me to ask about the status of the Town of Colchester's pension fund liabilities. Thanks to a past Select Board and Town Manager, Colchester, today, has no pension fund or health care retirement benefit liabilities. To insure the continued financial health of the Town, today's Select Board authorizes an annual financial audit of all funds of the town. They read and question the independent licensed public accountant's findings about the Town's administration management of the Town's fiscal affairs during a regularly scheduled select board meeting.

There are two basic retirement systems: defined benefit plans and defined contribution plans (often called a pension). More recently we have read about defined benefit pension plans. This type of plan is designed to pay a retiree who has met the employer's minimum employment obligations a guaranteed income for the remainder of his/her life and sometimes the life of one's spouse. Money to support this type of retirement program comes from the employer and usually the employee. The "required" annual contribution to this type of pension fund is centered on actuarial (anticipate life span) tables based on the age of the covered employees. The contributions are invested, usually in the stock market to (1) earn dividends and (2) appreciate in value to cover the anticipated monthly payment due upon a person's retirement. The "glitch" occurs when employers "under fund" their pension fund on the hope the stock market will "create" the difference due by appreciation and/or dividends. Under current economic conditions, the decline in the stock market has lowered the anticipated income of these funds leaving many employers without sufficient money to pay future retirees.

The other basic retirement system is called a "defined contribution" plan. Under this type of program, an employer pays into an individual's "retirement account" a set sum of money – usually a percent of salary. Some programs also require the employee to contribute to his/her retirement account. Once a payment is made by the employer its responsibility ends to the employer. It is now the employee's job "to manage" his/her pension fund. During the current downturn in the economy and "collapse" of the stock market, employees with this type of retirement fund on average lost about 30% of its value – thus reducing an employee's retirement "nest egg".

With the exception of the police, the Town has a defined contribution plan for each of its employees, with contributions made by both the employee and the Town. The plan is currently managed by the International County/Municipal Management Association. The police belong to the Vermont Municipal Employees Retirement System's defined benefit program. Both the officers and the Town contribute to this plan with officers contributing 50% more than the Town into this State program. Based on performance of the stock market and the actuarial tables for the covered membership, both the municipal and individual rates can be changed by the State Treasurer. Again, with the Town's annual payment into this pension fund, there is no "unfunded" liability to the Town.

The residents and taxpayers of Colchester can take pride in the oversight and guidance provided by the Town Select Board in the finances of the Town. Each year, the Town

appoints a licensed public accountant to perform an annual financial audit of all funds of the town. The contracted auditor provides his findings two weeks prior to attending a Select Board meeting to report his findings and answer questions posed by the Select Board and public in attendance. The report includes statements about all the outstanding and potential liabilities encumbering the Town.

As Colchester taxpayers I think you should be proud of your local government being “ahead of the game”. We also need to remember that we are responsible for those liabilities incurred by the State and Federal Governments retirement funds. To help you understand the significance of what should be your pride in Colchester two articles are worth reading. They are the New York Times article in the Business Section of the Saturday, August 7, 2010 edition entitled “Battles Looms Over Huge Cost of Public Pensions” (http://www.nytimes.com/2010/08/07/your-money/07money.html?_r=1&scp=1&sq=August%207,%202010&st). and David Coates article in the Vermont Tiger entitled “The Bills Are Coming Due: Dangerous Trends Require Action”. (<http://www.vermonttiger.com/content/2009/03/taking-on-water.html?cid=6a00d834519c3c69e201156f45b5f5970b>).

As painful as it may be, it’s time for governments and citizens to address these unfunded liabilities which affect all of us individually but more importantly threaten our collective well being as Americans and Vermonters.